

## Former Department of Natural Resources

On 4 October 2007, the Treasurer requested I undertake an investigation of the delay in issuing water management bills by the former Department of Natural Resources. My report is below:

On 4 October 2007, you requested I investigate the causes why the former Department of Natural Resources (DNR) and subsequently the Department of Water and Energy (DWE) did not issue water management invoices for the financial year 2005-06 and 2006-07. These invoices would normally have been issued in August/September 2006 and August/September 2007.

I have completed my investigation and my findings are below. I provided my draft findings to the individuals who assisted me in my investigation. A chronology of events is included as an Appendix to this letter.

### Findings

- Former DNR in October/November 2006 was preparing proposal as via draft Cabinet minutes to waive management charges.
- Senior Executives of the former DNR were aware, at least from November 2006, that water management invoices had not been issued. Some of these Senior Executives transferred to the DWE in April 2007.
- Confusion over who made decision to defer invoices.
- In February 2007 the former DNR advised State Water Corporation that invoicing should commence, although there is no evidence of approval from Senior Management.
- No common understanding amongst former DNR Senior Executives as to who was responsible to issue invoices.
- Unable to review documents recording decision at senior levels within the former DNR as records no longer exist or may not have existed.
- Evidence that the then Director-General was of the view that the former DNR maybe experiencing cash flow issues in January 2007. There is no evidence of the outcome of follow-up by the then Director-General.
- No clear evidence of former DNR's decision to invoice separately from State Water.
- No clear evidence of former DNR's senior management taking action to resolve outstanding issues and complete invoicing process.
- Former DNR did not assign to one person the task of project managing the production of separate invoices.
- Process to establish Biller code and Bpay facility commenced in August 2006 by former DNR and completed by Department of Commerce in late May 2007.
- There was no formal Service Level Agreement (SLA) between the former DNR and State Water for the 2005-06 billing period.
- The SLA signed between State Water and DWE in July 2007 trying to cover 2005-06 and 2006-07 billing years contained a number of flaws.
- State Water experienced computer related difficulties in June 2007 to late July 2007. During this and subsequent periods DWE requested State Water defer invoicing. Last email from DWE 19 September 2007, invoices on hold until further advice from DWE.
- DWE took initial steps to gain Ministerial approval to issue outstanding invoices prior to your request that this matter be investigated.
- DWE has created a Chief Financial Officer position as a senior member of the Executive team and created a strengthened Audit and Risk Committee to oversight financial management and reporting within DWE.

## Recommendations

- Project sponsors ought to be assigned to projects involving system and/or processing changes. Project sponsors need to be at a senior organisational level.
- Project plans and reporting protocols should be prepared for all projects involving system and/or processing changes
- All papers submitted to Boards of Management ought to be retained, either in electronic form or hardcopy
- When departments are dissolved, all key documents ought to be archived. This will help ensure compliance with the *State Records Act, 1998*
- DWE ensures that new governance arrangements are implemented effectively and monitored.

## Background

The former DNR was established in August 2005, following the break-up of the Department of Infrastructure, Planning and Natural Resources which had been created in 2003. I have been advised that the former DNR inherited an operating deficit of around \$36.0 million per annum, and strategies were immediately put in place to reduce the operating deficit, including a voluntary redundancy program which resulted in the loss of about 120 staff. The former DIPNR had previously shed approximately 350 staff to the newly created Catchment Management Authorities, and a further 500 staff in an earlier voluntary redundancy program.

In 2006-07 the former DNR was restructured.

The DWE was established on 27 April 2007. From that date, this Department is responsible for the issue of water management invoices.

State Water issued the water management invoices on behalf of the former DNR. This practice goes back to when State Water was a component of the former Department of Land and Water Conservation (DLWC).

In 2004-05, State Water collected the monies and determined the portion to be paid to the former DNR. I understand that for a number of years, the flow of funds to the former DNR was slow and difficult to reconcile with the expectations of the former DNR.

In 2006, the Independent Pricing and Regulatory Tribunal determined separate charges for State Water and the former DNR. This provided the opportunity to issue invoices separate from those issued by State Water.

In broad terms, State Water charges water users to recover its costs in the capturing and storage of water, flood management and other functions specified in the *State Water Corporation Act 2004*. The former DNR charged water users to recover its costs in constructing, maintaining and operating water management works and other functions specified in the *Water Management Act 2000*. Each entity's charges contain both fixed and variable components.

I understand that the water management invoices outstanding are for the 2005-06 and 2006-07 water years covering:

- Regulated Rivers;
- Unregulated Rivers; and
- Ground Water sources.

### Was Senior Management aware that the Water Management Invoices were not issued?

From November 2006, Senior Executives of the former DNR were aware that State Water had not issued water management invoices on behalf of the former DNR. The Director-General of the former DNR as well as the Executive Director, Water Management and the Executive Director, Corporate Services were aware the invoices were not issued on time.

Employees, including Senior Executives, of the Water Management Branch of the former DNR largely transitioned to the DWE.

There is confusion if a Senior Executive of the Water Management Branch made the decision to defer issue of the water management invoices in respect of surveyed water users on unregulated rivers. This occurred in early February 2007 when invoicing was deferred until April 2007. This Senior Executive advises us invoicing was not to be deferred, only letters to Council/users surveying water use were not to be sent. In any event, the message to State Water was to defer the issue of these invoices until April 2007.

In late February 2007, staff from the former DNR advised State Water that invoicing of all water charges should commence on or immediately after 2 April 2007. The same staff sought approval for this course of action from a Senior Executive of the Water Management Branch prior to communicating with State Water. We found no record of any response from that Senior Executive.

The DWE has been working towards issuing the 2005-06 water management invoices. Because issues surrounding the 2005-06 water management invoices were not resolved before August 2007, the 2006-07 water management invoices have not yet been issued. I understand DWE have approval to start issuing invoices in December 2007.

### **Departmental Governance Arrangements**

The former DNR's Senior Executives, most interested in the issuing of water management invoices, have no common understanding on who was responsible for issuing the water management invoices.

The Executive Director, Water Management is of the view that billing was the responsibility of the former DNR's Finance Branch. I have evidence of staff within the Water Management Branch communicating with State Water on the invoicing process and the steps involved in invoicing. I also have evidence of Water Management Branch staff communicating with the Finance Branch on establishing Bpay facilities.

The former Executive Director, Corporate Services in DNR believes the former DNR's Finance Branch had no role to play in issuing the water management invoices.

My staff were unable to review documents recording the decisions made at senior levels. Where agenda, minutes and papers may have existed, members of the former DNR's Board of Management informed us that they no longer have copies. My staff spoke to three former DNR Board of Management members and they have no common memory on the existence of meeting papers. The former DNR had a Board of Management which met every two to four weeks.

The former DNR's Board of Management comprised: the Director-General; Executive Director, Water Management; Executive Director, Landscapes and CMA Support; Executive Director, Compliance and Licensing; Executive Director, Science and Information; Executive Director, Corporate Services.

### **Financial Information**

I have been provided with a former DNR finance report for the nine months ended 31 March 2007. I have been informed the data in this report is indicative of financial reports submitted to the former DNR's Board of Management. The report is accrual based and made no reference to invoicing difficulties. The report states that income is 'marginally under budget'.

There is evidence which suggests that the then Director-General was aware that the former DNR was experiencing cash flow issues in January 2007. The then Director-General followed up on this issue in January 2007. I have no evidence as to the outcome of that enquiry. The then Director-General informs us that the then Chief Financial Officer's advice indicated that the former DNR's revenue was tracking satisfactorily.

Senior staff within the former DNR finance team changed in December 2006 and again in April 2007. The loss of senior finance staff did not hinder the resolution of issues surrounding the water management invoices. To some degree, this was compensated by employment stability within the Water Management Branch.

### **The Decision to have Separate Invoices**

I have no clear evidence of the former DNR's decision to issue invoices separate from State Water.

Former DNR staff suggested to my staff that the Independent Pricing and Regulatory Tribunal (IPART) determination for Bulk Water Prices for State Water Corporation and the Water Administration Ministerial Corporation from 1 October 2006 to 30 June 2010 prompted the desire to have separate invoices. IPART issued this report in September 2006.

I have copies of emails dated from June 2006 which suggests separate invoices would be a solution to the slow receipt of funds from State Water. State Water and the former DNR discussed issuing separate invoices. These discussions appear to have commenced in June/July 2006.

I have no evidence of the former DNR's senior management taking action to resolve outstanding issues and complete the invoicing process.

The former DNR did not assign to one person the task of project managing the production of separate invoices. It took the former DNR some months to establish the appropriate Biller code and Bpay facility. The process to obtain Biller code and Bpay facility appears to have commenced in August 2006. The Department of Commerce (the successor of the former DNR's Corporate Shared Services) completed the process in late May 2007. Delays in obtaining Biller code and Bpay facility were reported to relevant members of the former DNR's Board of Management in January 2007.

The former DNR's finance function was split between a service provider and the Department. The service provider, Corporate Shared Services was part of the former DNR. Corporate Shared Services established the Biller code and Bpay facility. The former DNR Finance Manager negotiated the establishment of the facility with middle level staff within the Corporate Shared Services.

Other difficulties encountered by the former DNR with separate billings were invoice design, the information flyers and letters to landholders explaining the separate invoices. These documents appear to have been completed at the same time as finalising the Biller code and Bpay facility.

#### **The SLA between the former DNR and State Water**

There was no formal SLA between the former DNR and State Water Corporation for the 2005-06 billing period. A SLA was signed in July 2007 between DWE and State Water Corporation. It tries to cover the 2005-06 and 2006-07 billing years.

This SLA has a number of flaws in it. It makes reference to the former DNR and it assigns task responsibilities to a person who did not transition to the newly created DWE in May 2007, some three months before the SLA was signed.

The SLA nominated persons to complete various roles. The staff members nominated to complete tasks on behalf of DWE are middle management. DWE advised me that the newly created position of Chief Financial Officer will be accountable for billing in the future.

#### **Proposed Waiving of Water Charges**

Email traffic I have seen suggests that, from August 2006, the former DNR was negotiating with State Water for the water management invoices to be issued. This included October/November 2006 when the former DNR was preparing proposals via draft Cabinet Minutes to waive water management charges for consideration by the government. The proposals to waive water management charges appear to have occupied a number of weeks and staff of the former DNR considered a range of options.

Water management invoices were traditionally sent out by State Water in August and September. Some Senior Executives my staff spoke to suggest that the draft proposals to waive water management charges were linked to the invoices not being issued on time.

#### **State Water's Role**

State Water experienced computer related difficulties in June 2007 until late July 2007. During the period and subsequent periods, DWE requested State Water to defer invoicing. The last email I have from DWE requesting State Water to place the invoicing on hold was 19 September 2007. At that time, the invoicing was on hold until further advice from DWE.

### What Action Has Been Taken in Relation to This Matter?

The DWE had taken initial steps to gain Ministerial approval for the issuing of outstanding invoices prior to your request that this matter be investigated. In addition the Director-General of DWE has established a small team of senior Departmental officers to resolve the issue of billing of outstanding water charges and budget issues generally.

Responsibilities for future financial arrangements have been clarified in DWE by the establishment of a Chief Financial Officer position as a senior member of the Executive team (recruitment action is currently underway) and the creation of a strengthened Audit and Risk Committee to oversight financial management and reporting within DWE.

Approval to issue the outstanding invoices has been received, and a fortnightly update on progress in issuing the bills is emailed to the Director-General, Deputy Director-General Water Management and other relevant staff.

The lack of clarity in responsibilities regarding invoicing that I have identified in the former DNR have been recognised by the Director-General of DWE, and a series of steps have been put in place to address this previous deficiency.

### Sources of information

Discussions with:

- Mr Mark Duffy, Director-General, Department of Water and Energy
- Mr David Harriss, Deputy Director-General, Department of Water and Energy; former DNR Executive Director, Water Management
- Dr Richard Sheldrake, Deputy Director-General, Department of Environment and Climate Change; former DNR Director-General
- Mr Kim Alvarez, Director, Department of Water and Energy; former DNR Director, Water Planning and Interstate Programs
- Mr Glenn Smith, Director, Corporate Services and Review, Department of Commerce; former DNR Executive Director, Corporate Services

Documents

- Various emails from June 2006 to September 2007.
- Service Level Agreement dated July 2007

Should you have any queries in relation to the above, please do not hesitate to contact me on 9275 7100.

Yours sincerely

Peter Achterstraat  
Auditor-General

20 December 2007

Date	Event
September/October 2005 June 2006	State Water issued the 2004-05 water management invoices Discussions between the former DNR and State Water to issue separate invoices commenced
August 2006	The former DNR commenced process to establish Biller code and Bpay facility Former DNR staff in discussion with State Water to issue the water management invoices
September 2006	IPART issue price determination for separate State Water and Water Administration Ministerial Corporation charges
October/November 2006	The former DNR was preparing draft Cabinet minutes to waiver water management invoices
November 2006	Director-General of the former DNR knew water management invoices did not issue
January 2007	Director-General of the former DNR identified cash flow issues
Early February 2007	Delays in obtaining Biller code and Bpay facility reported to the former DNR Board of Management
Late February 2007	The issue of the water management invoices in respect of surveyed water users on unregulated was deferred
March 2007	Staff from the former DNR advised State Water to issue the water management invoices from 2 April 2007 Director-General and Executive Director, Corporate Services of the former DNR advised by the Chief Financial Officer that the former DNR's revenue was tracking satisfactorily.
April 2007	DWE created
May 2007	Biller code and Bpay facilities established
June 2007	State Water experienced computer difficulties
July 2007	SLA signed to cover the years 2005-06 and 2006-07
August 2007	DWE resolving issues surrounding the late issue of the 2005-06 water management invoices
August 2007	DWE receive approval to issue 2006-07 water management invoices and established a timetable to issue 2005-06 water management invoices
19 September 2007	DWE advised State Water to hold off on issuing the 2005-06 water management invoices
December 2007	DWE have approval to start issuing invoices